Sunway Construction (SCGB MK)

Chasing The Golden Hours

	BUY (Maintained)
Share Price	RM5.80
Target Price	RM6.66
Upside	14.8%

Highlights

- At a virtual meeting with management yesterday, we highlighted our optimism on Suncon's 2026 outlook. The group's robust orderbook replenishment and strong DC tender pipelines remain as key catalysts.
- Implied dividend yield of 5.3-5.5% for 2026-27 is also appealing, based on our 100% dividend payout assumptions. We also see room for further capital management upside.
- **Maintain BUY and target price of RM6.66,** which implies 22x 2026F PE (+1SD above five-year mean of 18x).

Analyst(s)
Jack Goh
jackgoh@uobkayhian.com
+(03) 2147 1943

Jack Lai
+603 2147 1983
jacklai@uobkayhian.com

Analysis

- **Multi-year earnings visibility fuelled by strong orderbook replenishment targets...** Sunway Construction (Suncon) reported solid new job wins of RM5.2b in 2025, meeting management's guidance. Its 2026-27 earnings growth remains supercharged, leveraging on healthy outstanding orderbook on hand of about RM6.4b (>1x revenue cover). Management also guided an orderbook target of RM4.5b-6.0b in 2026, which is highly attainable in our opinion.
- **...and resilient tenderbook pipelines.** While Suncon's tenderbook further increased to about RM18.2b as of 3Q25, we remain optimistic that the group is well-positioned to clinch more contracts in 2026-27. Notable contract opportunities in the pipeline for 2026 include: a) multiple data centres contracts (RM4b-6b), b) internal project flows from parent company Sunway Berhad (Sunway) (RM1b), and c) public infrastructure projects such as Penang LRT and MRT 3 civil packages (landbank acquisition completing in end-26).
- **Valuations remain palatable with compelling yield and capital management upside.** Suncon is in a net cash position of about RM1.4b currently, reflecting an improving trend over the last two years following better earnings and improved cash flow conversion. Notably, the group declared a positive surprise of 23 sen special dividend in 3Q25, lifting 9M25 dividend yield to around 7%. Adjacent with the yoy earnings growth, we forecast a 100% dividend payout ratio in 2026-27, implying a lush prospective yield of over 5%. We also do not rule out potential special dividends given that the group has sufficient room for better capital management.

Key Financials

Year to 31 Dec (RMm)	2023	2024	2025F	2026F	2027F
Net turnover	2,671.2	3,521.7	5,847.3	6,200.3	6,446.6
EBITDA	245.3	279.4	500.2	544.7	554.8
Operating profit	224.3	262.2	479.8	523.1	532.0
Net profit (rep./act.)	145.1	186.9	356.4	391.1	402.0
Net profit (adj.)	170.2	167.2	356.4	391.1	402.0
EPS	13.2	13.0	27.6	30.3	31.2
PE (x)	43.4	44.2	21.0	19.1	18.6
P/B (x)	9.0	8.4	10.7	10.8	10.9
EV/EBITDA (x)	32.6	25.6	14.9	13.5	13.1
Dividend yield (%)	1.0	1.5	7.1	5.3	5.5
Net margin (%)	5.4	5.3	6.1	6.3	6.2
Net debt/(cash) to equity(%)	66.1	(32.5)	(14.5)	(25.4)	(38.8)
Interest cover (x)	11.4	n.a	30.8	37.9	60.5
ROE (%)	19.9	24.7	53.4	58.9	60.8
Consensus net profit	n.a	n.a	340.4	345.8	368.8
UOBKH/Consensus (x)	n.a	n.a	1.0	1.1	1.1

Source: Sunway Construction, Bloomberg, UOB Kay Hian

Stock Data

GICS Sector	Industrials
Bloomberg ticker	SCGB MK
Shares issued (m)	1,321.5
Market cap (RMm)	7,678.0
Market cap (US$m)	1,893.2
3-mth avg daily t'over (US$m)	4.1

Price Performance (%)

52-week high/low				RM6.3/RM3.2
1mth	3mth	6mth	1yr	YTD
5.1	2.2	1.0	72.6	2.6

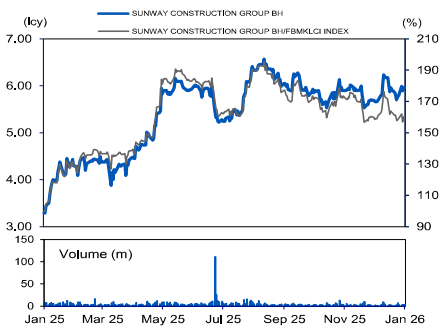
Major Shareholders

	%
Sunway Holdings Sdn Bhd	53.3
Sungei Way Corp Sdn Bhd	7.1
Employees Provident Fund Board	4.2

Balance Sheet Metrics

	%
FY25 NAV/Share (RM)	0.79
FY25 Net Debt/Share (RM)	0.33

Price Chart



Source: Bloomberg

Company Description

A leading construction company in Malaysia.

- **Riding on the era of DC-powered growth.** Note that Suncon secured three data centre (DC) contracts worth RM1.94b in 2025. The group currently has one completed and eight ongoing DC projects with combined 254MW IT load, with DC works making up 37% of total outstanding orderbook (as of 3Q25). Of the current tenderbook of about RM18b, around 80% or RM15b are DC-related. Suncon is also still bidding for a few DC projects with a combined IT load of 550MW (estimated value of RM15b-16b) that may be awarded within 2026-27. Overall, we assess that Suncon is in a good position to win several DC bids within 2026-27. This will lift the group's overall margins as a DC has a shorter construction period and better profit margins.
- **Internal job flows remain crucial to support growth trajectories.** Note that Suncon secured a sizeable contract worth RM721m from Sunway Lost World Water Park, an indirect subsidiary of the group's parent company, Sunway last year. Other potential internal project flows in the pipeline include: a) Sunway's new property launches of RM2b-3b p.a. in the coming years, b) multiple capacity expansions of medical centres, as well as c) potential renovation and refurbishment works for Sunway's existing hotels and malls. We believe that these internal projects will be doled out by Sunway in stages throughout 2026-27, and earnings translation is likely to be spread out across years.
- **Net positive for Suncon if Sunway-IJM VTO materialises.** On 12 Jan 26, Sunway announced a conditional voluntary take-over offer (VTO) to acquire IJM Corporation (IJM). We think that Suncon will largely benefit from various synergies if the VTO is successful. For example, Suncon can fill in the gap with potentially more piling or mechanical, electrical, and plumbing works for IJM's contracts. Plenty of cost savings can also be achieved from centralised procurement, better machineries utilisation, and economies of scale. These margin and scale enhancements should eventually also increase Suncon's tender competitiveness for large-scale projects.
- **Manageable impact from various input cost accelerations.** To recap, the Ministry of Transport has intensified its campaign against overloaded commercial vehicles since Oct 25, which resulted in a sharp cost base rise for the bulk cargo transporters and selective building material costs (especially cement and premix concrete). Nevertheless, management alluded that impacts are negligible given larger contract sizes and the group has avenues to partially pass through these costs. The cost impacts from the earlier higher sales and service tax (from 6% to 8%), implementation of diesel subsidy rationalisation, and higher labour costs following minimum wage revisions are also well managed. Overall, we assess that the negative earnings impact from these input costs increase is within 3%.

Valuation/Recommendation

- **Maintain BUY with an unchanged target price of RM6.66,** which is pegged to 22x 2026F PE (+1SD above five-year mean of 18x). We deem this valuation as fair given Suncon's record-high orderbook and tenderbook which anchor multi-year growth ahead.
- **Key upside risks to our rating and target price include:** a) higher-than-expected contract wins, b) escalating rollout of mega projects, and c) improving institutional or foreign shareholdings which will further tighten the stock's liquidity (floating shares of about 20%).

Earnings Revision/Risk

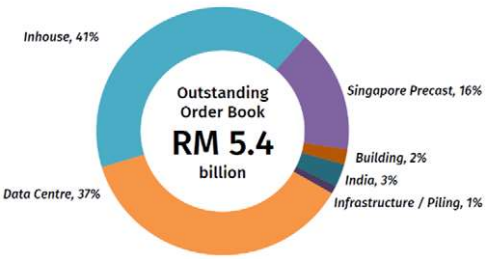
- Maintain earnings forecasts.

Outstanding Orderbook As Of End-3Q25

Projects	(RMm)
JHB1X0 Data Centre	156
K2 Phase 2 Data Centre	335
RTS Link Package 1B & 5	33
Daiso Warehouse	79
PSR -MNC	359
ECI & Work Order - MNC	5
General DC Contractor Work - MNC	1,110
India Highways	182
Others	148
Total External (A)	**2,307**
RTS TOD	1,373
Sunway Square Superstructure+VO	207
SW Flora	29
SW Ipoh Mall	565
Others	72
Total Internal (B)	**2,246**
Precast Concrete (C)	**888**
Grand Total (A+B+C)	**5,442**

Source: Suncon

Orderbook



Source: Bloomberg

Segmental Forecasts

(RMm)	2024	2025F	2026F
Revenue	**3,522**	**5,847**	**6,200**
- Construction	3,327	5,488	5,877
- Precast Concrete	195	359	324
Operating profit	**262**	**480**	**523**
- Construction	240	440	487
- Precast Concrete	22	40	36
Orderbook replenishment assumptions			
- Construction	4,200	5,000	6,000
- Precast Concrete	200	300	300

Source: Bloomberg

Profit & Loss

Year to 31 Dec (RMm)	2024	2025F	2026F	2027F
Net turnover	**3,522**	**5,847**	**6,200**	**6,447**
EBITDA	279	500	545	555
Deprec. & amort.	17	20	22	23
EBIT	262	480	523	532
Associate contributions	0	0	0	0
Net interest income/(expense)	10	(16)	(14)	(9)
Pre-tax profit	**273**	**464**	**509**	**523**
Tax	(76)	(102)	(112)	(115)
Minorities	(10)	(5)	(6)	(6)
Net profit	**187**	**356**	**391**	**402**
Net profit (adj.)	167	356	391	402

Balance Sheet

Year to 31 Dec (RMm)	2024	2025F	2026F	2027F
Fixed assets	85	108	117	127
Other LT assets	588	589	589	590
Cash/ST investment	1,016	782	806	847
Other current assets	1,907	3,068	3,166	3,205
Total assets	**3,596**	**4,613**	**4,745**	**4,834**
ST debt	731	681	631	581
Other current liabilities	1,926	3,168	3,350	3,489
LT debt	0	0	0	0
Other LT liabilities	1	1	1	1
Shareholders' equity	878	698	692	686
Minority interest	61	66	72	78
Total liabilities & equity	**3,596**	**4,613**	**4,745**	**4,834**

Cash Flow

Year to 31 Dec (RMm)	2024	2025F	2026F	2027F
Operating	**717**	**462**	**502**	**531**
Pre-tax profit	273	464	509	523
Tax	(100)	(102)	(112)	(115)
Deprec. & amort.	17	20	22	23
Associates	0	0	0	0
Working capital changes	535	80	84	101
Other operating cashflows	(8)	0	0	0
Investing	**139**	**(29)**	**(31)**	**(32)**
Capex (growth)	(9)	(29)	(31)	(32)
Proceeds from sale of assets	13	0	0	0
Others	135	0	0	0
Financing	**(303)**	**(587)**	**(447)**	**(458)**
Dividend payments	(116)	(537)	(397)	(408)
Proceeds from borrowings	(167)	(50)	(50)	(50)
Others/interest paid	(20)	0	0	0
Net cash inflow (outflow)	**552**	**(154)**	**24**	**41**
Beginning cash & cash equivalent	**384**	**936**	**782**	**806**
Changes due to forex impact	0	0	0	0
Ending cash & cash equivalent	**936**	**782**	**806**	**847**

Key Metrics

Year to 31 Dec (%)	2024	2025F	2026F	2027F
Profitability				
EBITDA margin	7.9	8.6	8.8	8.6
Pre-tax margin	7.8	7.9	8.2	8.1
Net margin	5.3	6.1	6.3	6.2
ROA	6.8	10.9	11.8	11.9
ROE	24.7	53.4	58.9	60.8
Growth				
Net profit (adj.)	(1.7)	113.1	9.7	2.8
Leverage				
Debt to total capital	77.8	89.1	82.6	76.0
Debt to equity	83.2	97.6	91.2	84.7
Net debt/(cash) to equity	(32.5)	(14.5)	(25.4)	(38.8)
Interest cover	0.0	30.8	37.9	60.5

IMPORTANT NOTICE - DISCLOSURES AND DISCLAIMERS

This report is provided subject to various disclosures and disclaimers (the "Disclosures / Disclaimers") which form an integral part of this report and are available at the following link: https://research-api.uobkayhian.com/assets/disclaimer/df64a6ea-7980-447c-ae9e-fd19b93257dc or by scanning the QR code below:

The Disclosures / Disclaimers contain important information, including without limitation, (a) exclusions of liability, (b) confidentiality obligations, (c) restrictions on publication, circulation, reproduction, distribution and use of the report, (d) potential conflicts of interest, and (e) disclosures and requirements specific to recipients in the United States and other applicable jurisdictions.

Specifically, this report is intended for general circulation and informational purposes only and does not take into account the specific investment objectives, financial situation, or particular needs of any individual person. It is not intended to constitute personal investment advice or a recommendation to buy or sell any investment product or security. You should independently evaluate the information and, where necessary, seek advice from a qualified financial adviser regarding the suitability of any investment, taking into account your specific objectives, financial situation and needs, before making any investment decision. Analyst certifications required under applicable regulations, including SEC Regulation AC (where relevant), are included in this report.

Recipients of this report must carefully read, review and understand the full Disclosures / Disclaimers before using or relying on any information in this report. By accessing, receiving or using this report, you acknowledge and confirm that you have read, understood, accepted and agreed to be bound by the Disclosures / Disclaimers (as may be amended or updated from time to time) in full."